REPORT OF EXAMINATION
OF THE

GALWAY INSURANCE COMPANY

AS OF
DECEMBER 31, 2002

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Los Angeles, California
December 9, 2003

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

GALWAY INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, CNA Plaza – 9S, Chicago, Illinois 60685. The Company's statutory home office and main administrative office is located at 818 West 7th Street, Los Angeles, California 90017.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 1997. This examination covers the period from January 1, 1998 through December 31, 2002. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2002, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

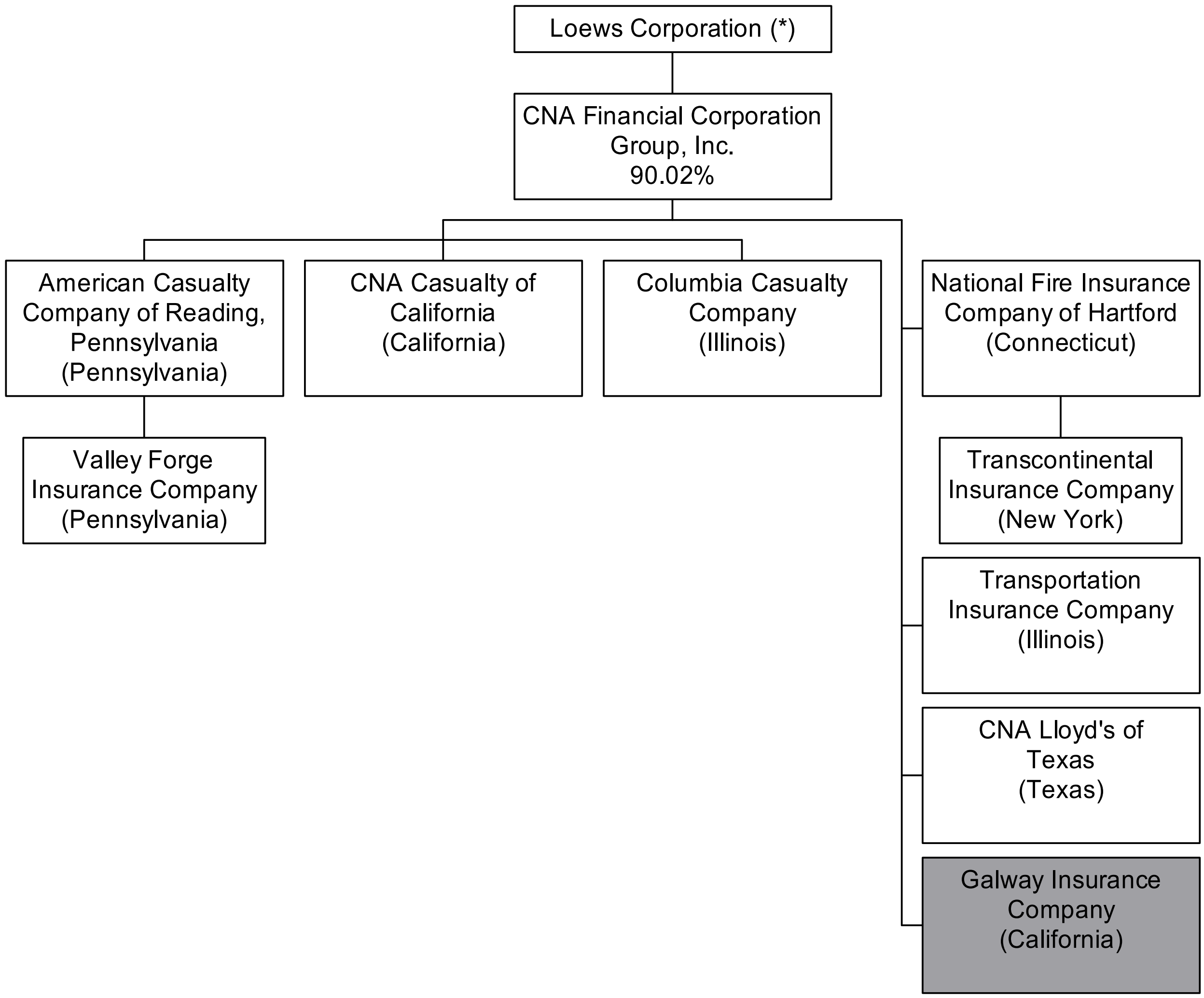
SUBSEQUENT EVENTS

As a result of the Company's unfavorable profitability in the sub-standard auto insurance market, management has made the decision to discontinue writing new business, except for good drivers as required by statute, and to proceed with a run-off strategy for the Company's existing business. As a result, effective March 1, 2002, the Company terminated its agreement with SCJ Insurance Services, which exclusively marketed the Company's business.

CNA Financial Corporation's (CNA) long-term business strategy includes plans to simplify its U.S. property-casualty insurance operations in order to achieve associated cost savings. CNA expects to achieve this goal by reducing the number of redundant insurance companies through either dissolution's or affiliated mergers. As a result of the Company's unfavorable profitability in the sub-standard auto insurance market and CNA's long-term business strategy, the Company will be either dissolved or merged with an affiliate. Management is currently evaluating an option for an assumption reinsurance agreement between the Company and an affiliated U.S. property-casualty company whereby all of the Company's insurance liabilities would be assumed by the affiliate.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Loews Corporation is the ultimate controlling company with approximately 87% of the voting stock of CNA Financial Corporation (CNA). CNA owns 100% of Continental Casualty Company (CCC), which in turn owns 100% of the Company's issued and outstanding stock. The following abridged organizational chart depicts the Company's relative position within the holding company structure:



(*) all ownership is 100% unless otherwise noted

Management of the Company is vested in its five-member board of directors. A listing of the members of the board and principal officers serving on December 31, 2002 follows:

Directors

Name and Residence	Principal Business Affiliation
Steven W. Lilienthal N. Barrington, Illinois	Chairman and Chief Executive Officer CNA Insurance Companies

Name and Residence	Principal Business Affiliation
Robert V. Deutsch Farmington, Connecticut	Executive Vice President and Chief Financial Officer CNA Insurance Companies
Jonathan D. Kantor Scarsdale, New York	Executive Vice President, General Counsel and Secretary CNA Insurance Companies
Donald P. Lofe, Jr.(*) Lisle, Illinois	Senior Vice President, Capital Management CNA Insurance Companies
Robert W. Patin Winnetka, Illinois	President and Chief Executive Officer, Life & Group Operations CNA Insurance Companies

*resigned effective January 6, 2003, replaced by James R. Lewis

Principal Officers

Name	Title
Stephen W. Lilienthal	President and Chairman of the Board
Pamela S. Dempsey	Treasurer and Vice President
Jonathan D. Kantor	Secretary, General Counsel, and Executive Vice President
Lawrence J. Boysen	Vice President and Controller
William P. Casey	Vice President
Robert V. Deutsch	Executive Vice President and Chief Financial Officer
Donald P. Lofe, Jr. (*)	Senior Vice President
Mary A. Ribikawskis	Assistant Vice President and Assistant Secretary
Donald B. Ward	Assistant Secretary
Robert J. Grob	Assistant Vice President
Steven Better	Assistant Vice President and Assistant Secretary

*resigned effective January 6, 2003, replaced by James R. Lewis

Management Agreements

Investment Management Agreement: Effective February 17, 1995, the Company entered into an Investment Management Agreement with Continental Assurance Company (CAC). This agreement provides for CAC to manage the Company's investments and investment related assets. It was noted that the Company did not disclose this agreement in its Registration Statement (Form B) filings with the California Department of Insurance for the period covered by the examination. No Form B filings were filed for this examination period. It is recommended that the Company disclose this agreement in its Registration Statement (Form B) as noted in the previous examination.

Expense Sharing Agreement: Effective October 1994, the Company became part of the CNA Inter-Company Expense Agreement where each Affiliate (Billing Affiliate) may operate certain units or departments that provide services to other Affiliates (Receiving Affiliate), where the Billing Affiliate incurs and pays certain expenses that in whole or in part should be borne by the Receiving Affiliate. The senior financial officer of each Affiliate is responsible for setting equitable coding for expenses paid and reasonable allocation basis. The allocation of costs is limited to the reimbursement of actual costs.

Consolidated Federal Income Tax Arrangement: Effective January 1995, the Company entered into a Consolidated Federal Income Tax Arrangement with the ultimate parent, Loews Corporation. Allocation of taxes is based upon what would have been payable or recoverable by the Company had it filed its own federal income tax return.

Underwriting Management Agreement: Effective January 1, 1995, the Company entered into an Underwriting Management Agreement with SCJ Insurance Services (SCJ). Under the terms of the agreement, SCJ is authorized to receive and accept proposals for insurance and to bind coverage and issue contracts of insurance. SCJ is responsible for the collection of all premium and policy fees, and issuing notices of cancellation or nonrenewal of policies. The following are the amounts for commissions paid to SCJ during the examination period:

Year	Amounts
1998	$18,184,951
1999	$12,818,011
2000	$ 6,108,682
2001	$ 4,471,717
2002	$ 3,324,762

CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter that fact in the board minutes. A review of the board minutes disclosed that neither the officially filed report was presented to the board nor the first formally prepared draft by the examiners. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 735.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2002, the Company was licensed to transact liability, property, marine transportation, and casualty (excluding workers' compensation). The Company is licensed in California, Florida and Georgia.

The principal lines of business written throughout the examination period were nonstandard private passenger automobile liability and auto physical damage. During 2002, nonstandard private passenger automobile liability and auto physical damage accounted for 72.3% and 27.7%, respectively of written premiums. The Company offers policies with limits of only $15,000 per person and $30,000 per accident.

During the examination period, all of the Company's business was marketed exclusively through the Company's "Program Manager", SCJ Insurance Services (SCJ). The Company has decreased its premium volume during the examination period as shown in the following schedule:

Year	Amounts
1999	$49,574,031
2000	$23,503,586
2001	$17,749,854
2002	$14,127,052

All of the Company's underwriting and policy maintenance is handled at the SCJ office in Pleasanton, California. All of the claims processing is maintained at the Company's branch office in Brea, California. Effective March 2002, the Company terminated its agreement with SCJ.

REINSURANCE

The Company has no reinsurance.

ACCOUNTS AND RECORDS

Accounting Practices and Procedures

The cumulative effect of changes in accounting principles as a result of the initial implementation of Codification, effective January 1, 2001, was a decrease to surplus of $17,675. The decrease relates primarily to adjustments to insurance related assessments and pension liabilities partially offset by the recording of deferred taxes.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2002

Underwriting and Investment Exhibit for the Year Ended December 31, 2002

Reconciliation of Surplus as Regards Policyholders
from December 31, 1997 through December 31, 2002

Statement of Financial Condition
as of December 31, 2002

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 25,190,507	$	$ 25,190,507	
Cash and short-term investments	2,518,409		2,518,409	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	2,558,906		2,558,906	
Federal income tax recoverable	430,266	244,325	185,941	
Interest, dividends, and real estate income due and accrued	257,383		257,383	
Receivable from parent, subsidiaries and affiliates	8,081		8,081	
Total assets	$ 30,963,552	$ 244,325	$ 30,719,227	

Liabilities, Surplus and Other Funds

Losses			$ 5,547,300	(1)
Loss adjustment expenses			2,735,023	(1)
Other expenses			(2,849)	
Taxes, licenses and fees			(123,852)	
Unearned premiums			528,148	
Amounts withheld or retained by company for account of others			220,123	
Remittances and items not allocated			832,528	
Remittances and items not allocated			(1,559)	
Payable to parent, subsidiaries and affiliates			1,163,946	
Total liabilities			10,898,808	
Common capital stock		$ 5,000,000		
Gross paid-in and contributed surplus		15,000,000		
Unassigned funds (surplus)		(179,581)		
Surplus as regards policyholders			19,820,419	
Total liabilities, surplus and other funds			$ 30,719,227	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2002

Statement of Income

Underwriting Income		
Premiums earned		$ 14,340,600
Deductions:		
Losses incurred	$ 8,827,518	
Loss expense incurred	2,046,658	
Other underwriting expenses incurred	4,512,918	
Total underwriting deductions		15,387,094
Net underwriting loss		(1,046,494)
Investment Income		
Net investment income earned	$ 947,492	
Net realized capital gains	529,325	
Net investment gain		1,476,817
Other Income		
Net loss from agents' or premium balances charged off	$ (1,382)	
Aggregate write-ins for miscellaneous loss	$ (48,382)	
Total other income		(49,764)
Net income before dividends to policyholders and before federal income taxes		380,559
Federal income taxes incurred		
Net income		$ 380,559

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2001		$ 19,288,108
Net income	$ 380,559	
Net unrealized capital gains	1,105	
Change in net deferred income tax	334,217	
Change in nonadmitted assets	(183,570)	
Change in surplus as regards policyholders		532,311
Surplus as regards policyholders, December 31, 2002		$ 19,820,419

Reconciliation of Surplus as Regards Policyholders
from December 31, 1997 through December 31, 2002

Surplus as regards policyholders, December 31, 1997, per Examination			$ 20,981,639
	Gain in Surplus	Loss in Surplus	
Net loss	$	$ 341,752	
Net unrealized capital gains	4,587		
Change in net deferred income tax		128,889	
Change in nonadmitted assets	201,942		
Cumulative effect of changes in accounting principles		17,675	
Aggregate write-ins for losses in surplus		879,433	
Totals	$ 206,529	$ 1,367,749	
Net decrease in surplus as regards policyholders			(1,161,220)
Surplus as regards policyholders, December 31, 2002 per Examination			$ 19,820,419

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The California Department of Insurance (CDI), pursuant to CIC Section 733, retained an independent actuary for the purpose of a full actuarial evaluation of the Company's loss and loss adjustment expense reserves as of December 31, 2002. Based on the evaluation and the review of work by a Casualty Actuary from the California Department of Insurance, the Company's December 31, 2002 reserves for losses and loss adjustment expenses were determined to be reasonably stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreements (Page 5): It is recommended that the Company make a Form B filing to the California Department of Insurance.

Corporate Records (Page 6): It is recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code (CIC) Sections 735.

Previous Report of Examination

Management and Control: It was recommended that the Company correct deficiencies noted in its Investment Management Agreement. The Company corrected the deficiencies noted in its Investment Management Agreement but did not make a Form B filing to the California Department of Insurance.

Management and Control-Management Agreements: The Company's Expense Sharing Agreement was based on a percentage of net premiums written. The California Department of Insurance requires that agreements be of this nature fair and reasonable. The Company is in compliance.

Accounts and Records: Many errors were noted in the Company's accounts and records. It was recommended that the Company review its accounting procedures to insure accuracy and provide reliable Annual Statements. The Company implemented this recommendation.

Recoverables from Parent, Subsidiaries and Affiliates: It was recommended that the Company receive premium remittances directly from SCJ Insurance Services, a non-affiliate. The Company implemented this recommendation.

Losses and Loss Adjustment Expenses: The Company insisted that the California Department of Insurance Casualty Actuary could only look at the actuarial report and could not have a copy of it. Furthermore, the actuarial report did not contain loss triangles or loss development factors. The Company's actuarial report was not in compliance with the NAIC Instructions for Actuarial Opinion. The Company is in compliance.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

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Laura Clements
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California